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ABSTRACT

This essay examines the role of investment capital in rural development. The development of government capitalism is traced. Outlined next are the premises for private and public investment. Geographic/geopolitical concerns in the formation of investment priorities are described. The need for greater availability of investment capital for small business ventures is discussed. Covered next is the development of realistic incentives for public/private investment. Ways and means of effectively coordinating federal and state investment capital programs are presented, and a model for public/private partnership is provided. Discussed next is the provision and development of appropriate technical assistance for sustaining and developing local economic ventures (with special attention to the role of education, business extension services, technical assistance entrepreneurs, and banks). Initiation of a national education training and technical assistance program for diversified rural finance development and management is considered. (Related reports on rural development in America are available separately through ERIC--see note.) (MN)

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Toward an American Rural Renaissance

The Role of Investment Capital in Rural Development

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Definitions/Preamble/Premises

"Invest" in my office dictionary reaches the fourth order of sense before it relates to our topic - "to furnish with power, privilege or authority" - and then goes on to the sixth order of sense to reach the meaning we have in mind, "to put money into business, real estate, stocks, bonds, etc., for the purpose of obtaining an income or profit".

This exercise with the dictionary is meant to emphasize a definition and a premise in this paper. Investment continues to be the placing of wealth in an enterprise for the purpose of securing a long-term gain. The earlier usage of the word is of note because it lends an important connotation to financial investment - conferring money confers power. The "investment" implied here is that capital which must be dedicated permanently to an enterprise in order to get it started and, often, to help it grow. In enterprises just being established this means finding savings from one's own economy or from the public economy and dedicating them as the foundation capital of the concern.

Capitalism has grown in three forms over the past 500 years. The original capitalism emerging from the Renaissance involved enterprises owned and controlled by individuals. The tradition of individual entrepreneurship continues to this day and has spawned many of our giant enterprises. Joint or corporate capitalism began

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almost as long ago, with the best known large examples being the royally chartered trading companies of England and the Netherlands in the 17th century. State capitalism, the third stream of development, was first experienced in the American colonies in such government monopolistic enterprises as the production of Naval stores (pine tar) and Naval spars (the tall straight pine trees reserved for the crown and known as the King's Arrows). More recently, state capitalism appears in everything from subway systems, airports, nuclear fuel production and most of the world's overseas airlines.

Government capitalism can be a forceful instrument of policy. The gradual development of the U.S. Federal Government's role in American capital market is an example. The mechanism arose out of the high personal and corporate income taxation rates developed during the Second World War and continued to this day. The importance of the income tax "bite" was that it has been in the Federal Government's power to affect private investment decisions by adjusting their tax impact. The industrial revenue bond exists because the internal revenue code permits instrumentalities of state and local governments to issue debt whose interest stream is exempt from Federal income taxation. Combined with another expression of governmental capitalism, the loan guarantee, this revenue bond appeals to a large segment of the individual and corporate taxpayers as having good security (the guarantee) and an attractive net (after tax) yield. This represents a formidable force in capital markets. One component of this force, income taxation, reduces the attractiveness of private equity investments because their current yields are taxed. Another part of the force

attracts the investor to guaranteed, effectively high-yield fixed income debt investments. Thirdly, this force presents to state and local entities a strong incentive to offer debt-based investment projects. Fourthly, this debt means of securing investment capital, with its deductibility of interest costs, is more attractive than the prospect of paying dividends after high income taxes. Contrast these attractions with the prospect of losing all in a totally at-risk private venture, taxable on the "upside", and one sees that state capitalism is pervasive.

If we are to discuss the role of investment capital in rural development, we will need to keep separate the notions of private equity capital investment and public debt capital investment because they are competitive with each other and because their availabilities are not always complimentary as seen by the developers of a particular project.

One interesting effect of taxation and the state's intercession in capital markets has been the re-emergence, or at least the uncovering, of our "underground economy". Americans have always had a barter economy. I let you use my snowblower, you let me use your garden tiller. I give you the pulpwood stumpage on my small woodlot, if you will cut and fit a certain amount of hardwood for my stove. More recently, orthodontist A fixes the teeth of electrician B's daughter in return for the wiring of A's vacation house at the lake. No money changes hands. I am watching this phenomenon with mixed emotions. As a citizen, I have the fear that the critical mass of voluntary compliance that facilitates our tax system may be erroded to the point of failure. As a congenital entrepreneur, republican and democrat, I am cheering because we are witnessing

a popular referendum. Every day people and businesses are voting with their actions on the "establishment's" rules for the economy and the way it is run. If our government can catch the sense of what is happening, and reformulate its impact on the private sector, what has happened so far can be celebrated as another one of those healthy groundswells which produce positive change in the country. If the phenomenon is misperceived or misinterpreted, or if the wrong responses are applied, chaos could ensue.

Premises for Private Investment

In the private sector, money is committed to investments to produce current yield and long-term gains. The equation's opposite side is the risk of loss, or less than expected performance. Other parts of this principle include:

1. The relationship to existing investments and/or operations. An investment may be made to expand a plant or to provide balance in an investment portfolio so as to spread risk.

2. Investments are often made for satisfaction, although the investor will usually be at pains to point out his business-like purposes. Many site selection decisions by industrial firms revolve around the personal preferences of a chief executive officer. There are industrial establishments in various parts of Maine which are there because the chief executive officer grew up in the state, went to camp in the state, has relatives there or had a particularly memorable vacation there. True, good cases were made for availability of labor, pure water, low cost land and the like, but when it is shown that up-state New York or southern Wisconsin might have offered similar attractions, the truth seems to emerge.

3. Competition by other capital uses world-wide is a vital factor in investment decisions. Many capital sources today, either individual or large institutions, sit astride large deal streams of extreme variety. An active investor could be simultaneously considering the details of an

investment in gold, a nursing home partnership share, a jojoba plantation or founder's shares in a high technology start-up. Methods of analysis in favor today make it possible to reduce such a variety of investments to comparable measures of risk and reward. This means that the proposal from ruraldom must be every bit as well presented and documented as any other private offering might be.

4. Community attitudes can have a significant effect on the investment decision. An investor whose project will impact the local society, environment, property taxation patterns, and preexisting employment conditions looks to learn how those impacts will condition the prospects for a successful project. Quite often, an investment project might run into strong environmentalist resistance. Further investigation then turns up the real cause of resistance in the fact that the project represents an incursion into what had been an employment monopoly for an existing enterprise.

5. Cultural and life style attitudes may affect investment decisions for functional investors, i.e. those who will move with their money to the location where the physical investment is being made. There will be a search for the "right" mix of educational, entertainment, medical service, and other lifestyle qualities.

6. Finally, transportation factors are especially important. Investment decisions affecting rural areas are particularly sensitive to the transportation factor since these enterprises are often concerned with large quantities of relatively low-value material. Site location close to heavy shipping facilities becomes important. These and other enterprises may also be concerned with the personal mobility of highly skilled or responsible individuals involved with the project.

Premises for Public Investment

So far as I know, we don't yet have public investment on a for-profit basis.

1. The first and oldest model for public investment has concerned the development of our basic infrastructure of roads, sewers, water systems, schools, security and fire protection. Infrastructure investments are widely

believed to be the prerequisite for industrial expansions in rural areas. Today's social contact has the public underwriting these expenditures because the broadly beneficial effects that infrastructure facilitates are not easily assesable in detail.

2. Another important factor in public investment could be called the seed or leveraging concept where state or local government and the federal government, in the case of the SBIC program, provide attractive financing terms for investments which are led off by private capital core commitments, of which, more later.

3. There are often humanitarian premises for public investment, all generally falling under the general category of "dignity of jobs and those who hold them". The underlying concept is that it is unacceptable to society to support a large unemployed population. More practically, we find that a public investment dollar goes farther against the plight of the unemployed than does direct support.

4. Some planned societies make public investments with an eye to the development of human resources, in connection with national strategic goals. In the U.S.A., we have a number of training incentive programs connected with industry with such objectives in mind. In most cases, the investment is made in free-standing programs such as CETA with concomitant investments (provided as grants) or labor subsidies to the employers connected with the programs.

Taxation Considerations Relating to Investment

Some long-standing conditions of our economy have led to a "borrow-spend" psychology of inflation. The federal government as well as state and local governments have been major participants in this development. Large, well financed corporations seem to be able to adapt to these new conditions. Small companies everywhere and enterprises connected with property-based rural economies seem less able to endure. The rural parts of our country are filled with land-rich, dollar-poor people and enterprises who would make useful investments and who know best how to, but cannot. Unless

the land itself can be used as the equity and the collateral in financing, these people cannot muster the start-up "nut" with which most investment finance works.

Geographic/Geopolitical Concerns

Investment priorities tend to run into a planning or philosophical argument as to where important investment should take place. The argument runs about as follows:

Thesis - "Where there is choice, we will get the most from our investments in urban areas." Only in urban areas with a variety of high achievement institutions in education, medicine, research and finance do we get the kind of "idea soup" that leads to fruitful growth. This school of thought can point proudly to the Bay Area, Greater Boston, North Carolina's Research Triangle, Greater New York, and, more recently, Denver. The concomitant, but much less well articulated thesis, is that rural areas are somehow ancillary to the centers. They are providers of raw materials, acceptors of refuse, playgrounds, the "boonies".

Antithesis - "Cities are the new dinosaurs" is the opposing view. The vitality of their early growth is gone. Their oncoming costs of refurbishment (water and sewer systems, streets, housing stock, schools) far outweigh the benefits. The cities should be dispersed or at least reduced to perform only those functions which need to be centralized.

Synthesis - "Diversity is fruitful". The corollary is "We'd better learn to be flexible" because the microprocessor chip and the communications cable appear to be creating new intellectual foci or communications nodes which do not depend on congregations of talent in cities. However, there are other enterprises which will always depend on concentrations in cities and yet other enterprises which need to be fairly near. A sensible synthesis of these views will look at an investment project and ask why it's being put where it is and how long-standing will the good sense of the resulting decision be. A case in point today in Maine follows:

The transportation of sawlogs by flotation in waterways is no longer permitted in Maine. As a result, sawlogs are now trucked to a mill. A log is a very good package. A plausible case can be made for siting sawmills close to the point of lumber use now that all of the log is utilized in some way. Several sawmills in southern Maine have expanded as a result of thinking along these lines. The logs simply stay on the truck for more miles. On the other hand, one must then carry much contained water in the logs.

The transportation of coal from western fields has been proposed by pumping a coal-water slurry in pipelines. Potential loss of the vast volumes of water required has forced a new look at the problem. One possible emerging solution: partial liquefaction of the coal itself to an oil that can act as a carrier.

Another more complex example:

The technology of wind-electric power generation has developed to the point where "wind farms" are being planned and built. Our more metropolitan areas place many constrictions on land use which tend to limit the siting possibilities close to major population and power consuming centers. The more rural states place fewer constraints on land use that is not damaging but not particularly esthetic, although the siting of wind farms in rural areas may seem at first glance to reenforce the impression of ruraldom as a resource area. A closer look into the future might show that the added low cost power could be an attraction to industrial site seekers.

<u>Need for Greater Ability of Investment Capital for Small and Micro-Economic Ventures ($5,000-$200,000)</u>

I. In the past two years, developments on the economic and financial fronts have placed severe pressures on all small and micro businesses. October 6, 1979 was the day that the symptoms of many organic difficulties in our investment system erupted into widely felt pain. It will be remembered that in October of 1979, the Federal Reserve Board abandoned interest rate controls in favor of money supply controls.

Since then, we have seen rates as high as 22% for the New York Prime, higher yet for many smaller companies and considerable constrictions in the money supply, particularly as felt by smaller concerns. There is a whole layer of retail and service enterprise in this country whose financial management skills are, and have been, modest. Looking back, these enterprises have operated on less capital or net worth and more debt than has turned out to be prudent. Honesty, thrift, and good banking relationships sufficed in the past to let the company roll over its short term debt time after time. In the last two years, however, bankers have found themselves facing the pain of telling valued customers in plumbing contracting, wholesaling farm equipment dealerships, roofing and hundreds of other local occupations that they must go out and find 10, 40, 150 thousand dollars of long-term debt. The investor most likely is to be the business owner himself, his family, or other local money. Due to the low historical savings rate in this country, many of the people to whom the entrepreneur might turn, do not have the money. Due to the tax effect on incentives to save, these people have themselves borrowed and thus leveraged their own capital bases. The first, fundamental, and most important change that needs to be effected for greater availability of investment capital for small and micro-economic ventures is to redignify private saving. This should be done with tax incentives on savings and small investment income, and capital gain and reduced income taxation generally on individuals and small concerns. Our most vexing international competitors, Japan and Germany, have no capital gains tax at all.

There is a growing body of thought that says that once a farm has reached a certain size, usually well within the capacity of a

family unit to operate, further economies of scale are purely financial. In parts of the high plains where the Oglalla Aquifer is increasingly depended upon for farm water supply, the dropping water table makes new or deepened wells increasingly expensive. The result is that larger and larger agglomerations of wealth are necessary to buck this water supply program. Although otherwise fully competitive, farms of a practical family size, say up to 1,000 acres, are being squeezed out for financial, not practical, reasons. There are two issues here, one concerning prudent use of an extensive but declining resource and the other about the way in which society will organize its proprietary energies. If one believes that diversity in the market place lends stability, then we must say that there is a need for investment capital for smaller and medium sized farming units which will provide that diversity.

Changing economic conditions are calling forth new means to old ends. The recent decontrol of "old" oil, concomitant price rises and predictions of further rises once again force private reconsideration of our transportation net. We have already seen the beginning of van pooling where people come together to work. When further cooperation in transportation is required, how will it be organized and financed in rural areas? The administration's changes are going to mean that the financing of more extensive mini-busing networks will come largely from the private sector. These enterprises are by nature adapted to small business, with many opportunities for part-time employment and small investment. Who in the local economy can be induced to make such investments, and how? The same kinds of questions hold true for the various residential and agricultural energy technologies that are just

beginning to emerge.

Agriculture itself now faces the need to find less energy intensive cultivation methods. The changes in methods of tillage, fertilization with green manures, and crop rotations are more intensive in intelligence so as to use less energy. A number of years is required for conversion, both inside the farmer's head and on the ground, sometimes at reduced or no profit for awhile. It could be that this process of change is a vital subject of public investment.

A certain amount of "industry" in rural areas contributes to economic stability and general welfare. Recently a skilled labor-intensive part of the electronics industry moved to a rural town in the Northeast. Although the labor differential, though modest, was a factor in the move, more important was labor force stability. In its urban setting, the company had found that it made repetitive investments in the personal learning curves of operatives who, too quickly, left to take their skills elsewhere, in a volatile high technology labor marketplace. To protect its training investments, the company has settled in a more stable rural society where most employees are earning second incomes for their families. The result is that the company can pay more than might have been expected in the rural area by passing on some of its savings in the training investment. Government transfer payments had been an important support for many of the new employees before the assembly firm arrived. Reductions in local expenditures of public funds for unemployment compensation, welfare, and the like have been of immediate help. A longer term benefit is the avoidance of cost to the social fabric incurred when individuals move to the cities in search of non-existent

work.

The problem of investment capital for new small and "micro" ventures in the rural world is in three areas:

1. Getting enough knowledge and skills together in one entrepreneur.
2. Getting a down payment together.
3. Access to credit.

In the area of training and education, it seems that our public education system has in the past 40 years, ignored or even down-played the foundations of our economic system. There is, in the schools today, an atmosphere of condéscension or mild disapproval of the capitalist system,which must reflect the background and training of school people themselves. If our society is turning away from public enterprise, then we need a new cadre of entrepreneurs who understand how savings and profits become the inducement to investment. After that, they face the problem of acquiring the basic skills of business. In today's mood of government thrift, we are creating an obstacle to the productive reinvestment which we all want. It should be relatively easy to re-order the economic marketplace to put needed capital into enterprise. Most of the skilled hands involved will come from vocational training programs, especially at the high school level. It is a valid and vital public investment goal to <u>increase</u> spending in this area, not the reverse.

Getting a down payment together, whether for a farm or a small business, has been a problem, increasing slowly since World War II, and more rapidly since the early 60's. Today, a young graduate in agriculture faces a six figure "equity nut" in acquiring a start of his own. Perhaps he can take a lesson from recent innovations in

the fishing industry and in private suburban home finance. The 200 mile limit has changed the ground rules in fishing sufficiently that many in-shore fishermen now seek an opportunity to go off-shore in much larger boats. Traditionally, single boat units owned by the captain has been the organizational standard of the in-shore fisheries. To go off-shore for days at a time means typically a ten fold increase in the value of the vessel needed. Lacking capital, fishermen are becoming general partners of limited partnerships that own their boats. Their limited partners are high-income professionals who can benefit from the tax credits and depreciation available in a typical boat financing. A similar mechanism is now being used to assist aspiring home owners who lack the larger down payments needed for ever more costly housing. We should explore the application of this limited partnership equity investment mechanism to the problem of family farm capital.

Banking in this country has not been developing so as to improve ruraldom's access to credit. There is a centralization process underway which hits the "small business" portion of the banking industry far harder than the forces working against small business generally. The economies of scale available to large banking units are tremendous. These institutions are in the city where they can deploy their industry-specialized credit officers effectively. Even small businessmen in metropolitan places can find bank personnel who understand their business because the bank is large enough to afford industry specialists. This is not so in the countryside. Even the largest banks of some rural areas can afford only generalists in lending. When the locally owned small

bank making traditional "character" loans sells out to a statewide bank, the personality disappears, to be replaced by uncomprehending technicians not rooted in the community. These new banking units in rural areas are still not large enough to offer the industry specialists that their seniors in metropolitan areas can offer small business. Moreover, the financial press now speaks of rural areas as potential deposit watersheds for the metropolitan banks who are now reaching out for new economic bases. Is that all this upheaval is to bring us?

Banking operates under a public franchise. In the past, there has been a quid pro quo of franchise in return for regulation to protect the depositor. Perhaps a leaf should be taken from the communications franchising book in which a certain amount of public service must be rendered by the media in return for their wave-length monopolies. Maybe it is time for banks to be required to provide appropriate credit specialists to the areas in which they seek deposits.

The agri-bond concept may provide an economic vehicle for developing new rural lending specialists. "Agri-bonds" derive from the "umbrella" revenue bond concept now being implemented in various states. These bonds are industrial revenue bonds issued by municipalities or state organizations permitted to give the state tax exemption on interest. The umbrella portion of the concept involves selling an omnibus issue whose proceeds will be used for a number of entities instead of a single one. Such a procedure is being developed for revenue bond funding of smaller enterprises who cannot pay high fixed accounting, printing and legal expense of a small bond issue.

Economies of scale could also be applied to agricultural production investments. Local jurisdictions would issue bonds for a fund of $10,000,000 or more, to be disbursed through the expertise of banks in agricultural areas. Uses of proceeds could include:

- Potato storage warehouses in Maine
- Grain elevators in the mid-west
- Facilities for drying and processing whey in dairying areas for subsequent use in cheesefood and fertilizer
- Facilities for hydrolizing sugar cane bagasse for use as cattle fodder in the south .

Deployment of the bond proceeds would be through the talents of local banking professionals required to research and provide the credit decision. If deployment of agri-bonds became a requirement for the banking franchise, one could expect that the institutions would acquire expertise and perhaps, hopefully, a change of attitude about lending in general to the agricultural production sector.

II. <u>On the Development of Realistic Incentives for Public/Private Investment: Capital Formation Access and Utilization</u>

A. The best incentive for cooperation in public/private investment is not a need for a mechanism but rather the realization that our national world has become a lot smaller. In the past fifty years, we have gone from the age of the domain to the age of the sector. Fifty years ago, a corporation or a municipality, sometimes a state and even possibly the national government, could consider itself the sole operative in a functional domain isolated from other domains by effectively empty space. No longer! Our American vastness

has filled up, to be replaced with competition for resources. Whether we seek water in the West, grazing land on the high plateau, crop land on the prairie or industrially zoned land in the East, we find ourselves rubbing up against other domains to the point that we now think in terms of sectors of one domain. We now experience competition in priorities. Wherever we turn with action in mind, there we find competition, among a wide variety of interests, for natural resources as well as physical and human energy. Some of this competition may turn out to be merely conceptual when we recognize the goals to be common, with only style separating the parties.

The foregoing may give an impression of some chaos as to the ordering of urban-rural priorities. A rationalization can take place in a forum where those of good will trade ideas and concerns in a context of trust and good will where interests can best be served by listening as well as presenting. In both the public and private sectors of rural and economic development there are now many voices, even in a small neighborhood. Such a forum needs to be attentive to each voice. Someone with power must make the first move by showing sufficient willingness to share that power as to be ready to accept change from without. That act of faith, properly timed and positioned, gets the process going.

That first incentive to join hands comes best from those who have no patent need to reach out - the politically or economically powerful.

B. An effective crossroads or forum concerned with public/private

investment will soon bring to light a variety of sources of grants for specific purposes. These sources include a wide variety of federal and state programs as well as grants from private foundations concerned with particular social objectives. The larger the flow of ideas, solutions, problems and procedures, coupled with high skill, the more likely economies of scale will be achieved in assembling necessary elements of particular funding proposal for the public or charitable sector. Achievement can be its own incentive.

C. The public sector now has at its disposal, a variety of structural mechanisms which incorporate capital formation incentive powers. The non-profit (501C3) corporations, industrial revenue bonds, and the new SBA 503 program are examples. A 501C3 non-profit corporation acting as the general partner of a limited partnership composed of private sector participants is a tool which can be applied to a large number of public/private investment capital formation projects. The non-profit corporate "general" can act as the shock absorber with regard to cash flow, while the personally beneficial effects of the limited partnership organization can be channeled to private sector investors who would not otherwise be attracted to the project at hand. Public money channeled into such non-profit general partner corporations are likely to be far more effective than public money spent directly in projects themselves.

Recently, the use of state income tax credits for stimulating private ventures deemed to be worthwhile for the common weal

have begun to appear. This mechanism is at work in the Maine Capital Corporation to be detailed below:

> State income tax credits along with income tax credits from lesser governmental entities are expensive for the entity for an important reason. A dollar saved in state income tax must be a dollar added to the taxpayer's federal gross income. Thus, if the state wishes to create an incentive within its borders for some activity by giving a state income tax credit, part of its sacrifice in tax forebearance will be channeled to the federal government rather than the intended beneficiary. A state or local jurisdiction should consider this stratagem very carefully, probably only using it as a stimulis for pioneering in a desired activity.

III. Way and Means of Effectively Coordinating Federal and State Investment Capital Programs (e.g., Farmers Home Administration and Small Business Administration among others)

A. SBA-EDA-FmHA-NOAA-DOE-HUD.....gold mine or maze? The foregoing is a partial listing of federal investment capital programs. In addition, every state has its economic development network, usually with one or more authorities capable of providing some special kind of capital. Each entity was set up as a separate government program to produce an economic effect thought desirable by a legislative body. An enterprise seeking funds could easily spend six months and much money learning enough about each program potentially available to it to know which ones to apply to. Even then, it might belatedly discover that a particular program had used up its funding for the fiscal year, with six months to pass before more became available. There is a market for services to investment candidates who are seeking to match their specific needs with the availability of the many public sector programs and private sector sources.

Certain specific factors can be cataloged for each program

so that an entrepreneurial inquiry can be quickly channeled toward the appropriate or possible solution. Among the factors are:

- Job creation requirements
- Size of investment or grant
- Compatibility of the program with other programs, legally and pragmatically
- Specific, permitted uses of proceeds
- Interest rates
- Repayment terms
- Private, matching fund requirements
- Current funds availability
- Chances of success

B. A Model for A Public/Private Partnership

In late 1976, a blue ribbon task force appointed by Maine's late Governor Longley reported its proposals for a new economic development partnership between the state and the private sector. Over the years, Maine had been an innovator in state sponsored economic development programs. Some of these programs have been highly successful as in the Municipal Bond Bank, and others came upon the scene before their time, as in the Development Credit Corporation of Maine. During the previous administration, a very large state economic development organization had been created, which the economy-minded Governor Longley almost completely abolished. Protests about over-zealous economies led to the task force study. Its principal recommendations involved two new organizations outside of state government.

The premise of the task force report was the accomplishment of an economic development policy requires a partnership between

the public and private sectors. Further, the partnership should take the form of an institution with an action-oriented capability of putting together and implementing specific programs and business deals. The vehicle which was recommended was to be called the Maine Development Foundation. It was proposed to the legislature early in 1977 as a non-profit corporation under section 501C3 of the U.S. Internal Revenue Code. The "MDF" was to have all of the powers of a business corporation including lending, borrowing, holding property, making contracts, etc. Funding for the Maine Development Foundation was to come from three principal sources:

- Tax deductible donations from the private sector
- Matching funds from the State General Fund
- Operations as a contractor for fees

The legislature enacted the proposal and set aside matching funds for the MDF. In the fall of 1978, the Foundation began operations. Presently, the Maine Development Foundation has over 200 "corporators" who annually contribute $250 or more, if they are private sector supporters, and $50 or more, if they are public sector supporters such as municipalities, counties, educational institutions, regional planning commissions, or other public sector entities concerned with the coordination of economic development. There have been annual contributions of as much as $7,500. All of these "corporator fees" are matched dollar for dollar from the State General Fund. In addition, the Foundation acts as a change agent contractor in a variety of projects. Among these have been the identification of likely investment opportunities in secondary wood and paper processing

industries; a study in conjunction with the Maine Poultry Federation to determine means of bringing feed grain east at reduced rates to enhance competitiveness with the southeast; a study in conjunction with the State Department of Marine Resources; and a widely represented task force from the fishing industry. A typical format for these task force activities involves several large contributions from the private sector organizations concerned with economic development, who earmark the money for an MDF based task force project. The Foundation then assigns a staff member as the project leader and the Foundation acts as the center of activity.

Currently, MDF has a staff of 12, with professional qualifications in:

- Public/Private Municipal Redevelopment Operations
- Public Finance
- Private Finance, Especially Venture Capital
- Industrial Development
- Marketing
- Legislative Affairs
- Management Consulting

In addition to the development project-oriented activity mentioned above, the MDF has become a crossroads for business people seeking financing and advice and financial sources looking for investment opportunities. Early in the Foundation's existence, state government found it appropriate to make it the home of two separately funded federal programs. These are the Commerce Department Export Representative and the Field Representative for the Federal Trade Adjustment Assistance program. This conglomeration of talent and access to information has required the installation of six telephone trunk lines which

are well used incoming and outgoing. The inquiries range from site location inquiries by out-of-state industries to requests for financing advice and assistance from farmers, loggers, small manufacturers, inventors, and individuals seeking to leave big city jobs and find more rewarding life styles in the state. Because MDF has attained a "critical mass" of information and capability, it is able, in nearly every case, to provide a response which makes each inquiry worthwhile. Probably the single most important service provided is saving those who have some economic development purpose in mind from time and resource-consuming blind alleys.

Example I

In the northern part of the state on a converted potato farm, a man and wife team has been trading used fire engines for fifteen years. The company (for it is now incorporated) recently developed a drop-in fire fighting package for pick-up trucks. The unit consists of a water tank, gasoline powered pump and the necessary auxiliary equipment to convert any pick-up truck into a small fire engine in five minutes. The units are very useful in sparcely settled low-income rural areas. The company had almost no business expertise and could not understand, although its sales were growing and each transaction was profitable, why it was experiencing an outward cash flow. A local bank referred the couple to MDF which paid two visits, enough to determine that the company's cash accounting system was inadequate for its growing prosperity. An accounting firm was found, books put in order, and a bank loan allowed the company to properly fund its expansion.

Example II

A small "muscle-powered tour" packager had had a very successful first summer cycling season, followed by a disasterous winter. The company arranges and leads bicycling, white-water canoeing, cross country skiing and sailing adventures in various parts of the state. Expensive promotional activity had resulted in reservations for a potentially profitable winter season which were unfulfilled for the lack of snow. Lacking adequate capital, the company was faltering badly. The MDF put the company together with a retired travel and public

relations executive who has made a modest investment of funds and a major investment of advice and assistance. The company is now successful to the point of running bicycle tours in several northeastern states and the People's Republic of China.

Example III

A young man with experience in fiber glass boat building saw an important fishing boat design need going unfulfilled. After successful construction and sale of two boats in another state, he identified an ideal site for building the boats on Maine's coast. MDF assisted in putting together a limited partnership to purchase and lease to the company the facility it had identified. Later MDF assisted in finding a private equity investor to enhance the company's working capital needs.

The Maine Capital Corporation

The aforementioned 1976 task force also identified a specific capital formation need in the state of Maine. Maine had never had an identifiable source of private venture capital. As a result, out-of-state entrepreneurs starting companies or those requiring larger quarters and financing never thought of Maine as a site for their companies while some Maine firms moved away in order to find the business support they needed. The legislative package suggested by the task force presented to Governor Longley in 1977 included a venture capital company to be called the Maine Capital Corporation. Although venture funds have been put together for large sums for many years in other parts of the country, the task force determined that it would be very difficult to assemble investors in a fund in Maine on a conventional basis. Accordingly, the Maine Capital Corporation was granted a special legislative charter which made it possible to provide investors in the fund with a state income tax credit of 50% of their investment. The credit would be taken over five years so as to not overly impact state tax collections. The

implementation plan for the Maine Capital Corporation was closely interwoven with The Maine Development Foundation. The Capital Corporation was conceived as an unstaffed entity to be managed under contract by The Maine Development Foundation. After the Foundation had been securely established in 1979, the organizing group for the Capital Corporation determined that the Maine Capital Corporation could and should be a Small Business Investment Company under the Federal Small Business Act of 1958. An SBIC is a key element in any public/private scheme for economic development, urban or rural. The Maine Capital Corporation is a classic venture SBIC interested in profiting from financing the steepest part of entrepreneurial growth cycle.

Maine Capital Corporation has now considered at least forty investment proposals, and at this writing, is committed to one and likely to be committed to two more shortly. In the few months since licensing, a state-wide financial community unused to venture financing has begun to think of Maine Capital as a particularly adapted source for certain situations. If the experience of other areas (Rhode Island, Vermont and New Hampshire) is any guide, the presence of venture funds will engender new business activity.

Another part of the Small Business Administration investment division's activity involves MESBIC's, Minority Enterprise Small Business Investment Companies. As will be seen from the appendix of this chapter, MESBIC's also provide venture capital for small business entrepreneurs under the unique circumstances of minority disadvantage in their communities. With a homogeneous white

population and a minority consisting of some 4,000 Indians just now being enfranchised economically, Maine may see a northern, rural MESBIC soon.

The Maine Development Foundation has been provided, through the Maine Capital Corporation, with a magnet that attracts publicity and interest from the private sector. A fund which is managed on a business-like basis for profit, with a purpose of investing in developing enterprise, attracts the attention not only of active change agents in the economy but also of thought leaders who are concerned with effective bridging mechanisms between the public and private sectors.

C. Factors Requisite for Viable 5013C Development Companies

A 5013C development corporation is an appropriate response to an economic development need that is clearly felt and readily identifiable in a cohesive, political or geographical area. Obtaining tax exempt status may become exceedingly difficult under the new administration. The premises behind a quasi-public development entity are founded on the principle that a political and governmental input is often appropriate in satisfying the need of the constituency for economic development. For the concept to prevail henceforward in today's national political atmosphere will require a clearly identifiable need, where "market force" solutions alone will not suffice. If one views such a development corporation as an economic development cooperative, one need not search far for important antecedents. The rural parts of our country are very familiar with agricultural and electric cooperatives.

Another requisite for a successful non-profit development

corporation is an atmosphere of communication between the public and private sectors. Usually the condition will be met when a few key leaders in the community understand on both sides, that they have something more important to gain by quiet cooperation than they might lose through noisy disagreement. Sometimes this probability of transaction arises from stark need. In the city of Boston, in the late 50's and 60's, a group of businessmen and municipal and state government officials was formed at the suggestion of a businessman who recognized all of the factors needed for a viable public/private corporation. The group met weekly in a lower level meeting room at a local bank. As a result, the group become know as "The Vault". Through the mediation efforts of this group were born the changes in zoning and taxation regulations coupled with the daring financial departures necessary to create what has become known as the New Boston. The core decision dealt with taxation during construction of the city's first major downtown renewal project. Such public/private joint venturing has been repeated many times since, and should set examples for rural coalition-building. Non-profit development corporations operating with methods comfortable for the private sector require a measure of regulatory restraint and trust which is usually hard to elicit but worth the effort.

A public/private development corporation is a new venture without the promise of income statement profits. As such, its early days are difficult to finance. I expect that the seed dollars can come from either side but suspect the quickest and most effective means of moving off the starting line are with a

few public dollars raised in the enabling legislation of the organization itself. This money, to be numbered in the few tens of thousands of dollars, should be for organizing an entity and providing a minimum staff to prepare for fund-raising. No operational or program dollars should be provided at this point. If there are, count on someone in the governing group or on the staff to suggest further appropriations thereby shortcutting the crucial matching public/private fund raising process. The principal virtue of this funding scheme is that it constitutes an ongoing referendum with financial ballots. If the corporation cannot prove its value to the satisfaction of donors who, after all, are giving 50 cent dollars from their cost point of view, then the rest of society should not be forced to support the enterprise through taxation. Too much public pump-priming at the beginning will only induce an early case of bureaucratic lassitude and subsequent loss of private sector interest. A final factor in insuring a successful public/private development corporation is people. A job commitment to such an organization should be somewhat risky. It should not be thought of as a permanent career haven, but rather as a growth step to be taken after previous considerable growth. Such conditions will automatically presort applicants, leaving those most likely to be committed intellectually to the concept. Distribution of talents amongst the personnel should be reasonably balanced so that the group operates as peers.

IV. Provision and Development of Appropriate Technical Assistance for Sustaining and Developing Local Economic Development Ventures

A. Education

In today's segmented society, it is difficult for young people to understand the economic niche occupied by their elders. This is especially true of professionals who deal in intangibles in the worlds of education, law, finance and much of business management. Educating the young in the principles of business was once something that took place automatically in a time when the work place and the home were one or were close together. Many young people today display a vague sense of unease with the concept of business profit. They do not relate a business profit to the concept of individual savings after all personal expenses have been taken from income. For the long term, elementary and middle school education must contain components consciencely put there to make these facts clear. In junior high and high school there may now be emerging a unique opportunity to restore awareness in young people of the economic and business equasion as small computers proliferate on the educational scene. Business problems can become fascinating case studies.

B. Business Extension Services

At a time when a much larger portion of American enterprise was agricultural, we established strong university extension services that now network the country with information and assistance from state universities to individual practitioners. However, our extension services no longer match the needs which exist today. While not wishing to detract from that which is offered, I suggest that the dollars invested in supplementing

agricultural extension services with business extension services would be well spent. The Small Business Administration has made a start on this with their SCORE and ACE programs and their Small Business Assistance Centers at Land-Grant universities. If the new administration is serious about building up the country's productive capabilities, a part of that purpose must be long term. This must mean not reductions in support to the growing university extension movement, but increased support, geographically and programatically. A would-be entrepreneur ought to be able to travel no more than forty miles to reach some sort of center where he can obtain answers to such stions as,"Here's my idea of a business. Should I start it now? How do I start it? What should I look for? What should I avoid? How do I write a loan application?" The advice and answers should be free at the outset, with a small instalment fee or royalty to be paid later, in the event the company survives and prospers.

C. Technical Assistance Entrepreneurs

The business assistance centers called for in the foregoing should be staffed with a newly created core of case officer/packagers who have been specially trained to provide initial and ongoing assistance to would-be entrepreneurs. These "technical assistance entrepreneurs" would be governmentally employed but would enjoy performance incentives derived from royalty payments by successful cases.

As an example of the workings of this scheme, a rural entrepreneur might be approached by a firm which manufactures equipment for making methane from animal wastes. Let us assume that the

manufacturer wishes to place his equipment in the field on a joint venture basis in which an entrepreneur provides housing, the raw material supply, management, working capital and marketing. The entrepreneur might have a conviction that the methane and by-products represent a worthwhile new business but he might not possess the analytical tools to prove this even to himself or to those he must enlist for finance and other backing. The local technical assistance entrepreneur could be engaged to help him analyze the opportunity. If indications are favorable, the technical assistance entrepreneur and businessman would package a deal and effect the establishment of an installation. This help would be on the understanding that the technical assistance entrepreneur would receive a defined royalty on sales or earnings for a specified period of time.

D. A New Demand on Banks

It may be time for a new quid pro quo for the banking franchise. As major banks move into the countryside, we should consider requiring them to bring appropriate banking specialists for the areas to which they expand, in return for their privilege of generating consumer and small business deposits. These specialists might well be the banking equivalent of the technical assistance entrepreneurs mentioned previously. Many perfectly bankable situations go unfinanced because local banks do not understand the proposed business.

V. Initiation of a National Education Training and Technical Assistance Program for Diversified Rural Finance Development and Management

The technical assistance entrepreneurs mentioned above would be the principal product of a new program leading toward training in technical assistance for rural development.

A. Call to Action

The first goal in this program is to broadly disseminate a recognition of the need to provide a cadre of talent that is more than a financial or banking capability. The individuals needed in place will have a blend of personal experience in production, operational knowledge, marketing, financial controls, planning, grantsmanship and government regulatory relations.

B. Masters of Rural Business

To provide the technical assistance entrepreneur program with an educational base, a needed degree course should be instituted for Land-Grant universities. The "MRB" programs would be a blend of the familiar business school curriculum and a technical grounding in rural enterprises ranging from agriculture to forestry to transportation, energy and services.

C. Attracting Potential MRB Technical Assistance Entrepreneurs

To create a demand for the new degree candidates, there should be assembled cooperatively matched funding for their future positions. Every level of government should be expected to make a contribution, and provisions should be made for tax credit funding by business. It should be understood that the technical assistance entrepreneurs will be working toward incentives for performance to be paid by their future clients. A revolving fund should exist for the tuition and other education expenses of "MRB's". MRB's would be expected to repay their education loans from incentive payments.